ICED Evidence Library

What can be learnt from Dakar's failed attempt to launch a municipal bond?

Tags: Lessons Learnt, Political Economy, Case Study, Evidence Review Volume: ECDEV001

In 2015, Senegal's central government blocked Dakar's first municipal bond launch; a pioneering transaction supported by the World Bank. ICED considered what happened as part of an evidence review to inform DFID's new Cities and Infrastructure for Growth programme (CIG) and identified three key lessons for technical programming .

Photo: Jeff Attaway

Nestled on the shores of the Atlantic, Senegal's capital Dakar has been changing radically in the past decade with some large investments in roads and infrastructure. Yet, poverty and poor service delivery remain endemic, especially in the 'other Dakar'—informal settlements where 40 per cent of city dwellers live. As in many African cities, chronic shortage of jobs and affordable housing, poor transport services, flooding, erratic waste management and frequent power cuts hamper economic development. Running on a ticket for improving the city for all citizens, Khalifa Sall, member of the opposition party *Parti Socialiste,* was elected Mayor of Dakar, unseating an ally of Senegal's long-time president Abdoulaye Wade. [1]

To realise his ambitious plans, the reformer Sall needed capital and technical support. He enlisted help from the donor community to strengthen the cities administrative capacity and fiscal management and attract financing to improve Dakar's infrastructure. As a first step, the World Bank led Public-Private Infrastructure Advisory Facility (PPIAF)'s Sub-national Technical Assistance Program (SNTA) reviewed the municipality's financial management systems and potential for accessing loans and other external finance: the first African sub-national entity to be assessed under this programme. While the review highlighted deficiencies in Dakar's financial management, SNTA proposed a number of reform to improve its financial management systems and increase revenue collection. These reforms produced rapid benefits in enabling Dakar to borrow on commercial terms to finance investments to develop municipal markets and road rehabilitation.

Building on these achievements, the mayor set up the Dakar Municipal Finance Programme (DMFP) as part of the city administration to develop the cities' creditworthiness and access additional sources of investment capital. Like many African cities, Dakar has limited capacity to increase local revenue collection as it controls only about 10% of its' total revenue and the central government frequently withholds funds to finance local investment projects. To overcome these constraints the DMFP drew up plans to further improve revenue collection and explore opportunities for tapping additional and cheaper sources of external finance. This led to a decision to launch a municipal bond, which would allow the city to raise a larger amount on cheaper terms than commercial borrowings to fund a project to develop a new city market to cater for around 4,000 local shopkeepers and street traders, which would reduce street congestion and generate additional revenue for the municipality to service interest and capital payments in the bond. While the municipal bond market in the United States is well established and worth around US$ 3 trillion, Africa's sub-national bond market is still in its infancy. Only a handful of cities in South Africa and some states in Nigeria issued bonds not backed by a sovereign guarantee.

The issuance of a municipal bond called for careful detailed preparation and support from other development partners, including SNTA, USAID and the Bill and Melinda Gates Foundation, to determine and meet the procedural requirements of the regulatory agency, to obtain credit ratings from accredited ratings agencies and to prepare a detailed feasibility study to demonstrate to prospective investors that the municipal market project would generate sufficient revenues to ensure of the bond's interest and repayment obligations.

Despite these careful preparations and the strong support of important development partners, the municipal bond issue was unsuccessful. Two days before the official launch date in 2015, Senegal's central government suspended its written permission it had given to the project, presenting certain "technical objections" that blocked the bond issuance. Many of the mayor's allies saw the block as being directed at Khalifa Sall personally.

SNTA support for Dakar illustrates a number of instructive features for the linkages between technical assistance to support the enabling environment and facilitating financing or investment transactions.

The ICED team has distilled three key lessons for TA programming from the Dakar Case Study:

Lesson 1: Despite ultimately failing to issue a bond, notable results were achieved along the way

The City of Dakar benefited from PPIAF/SNTA's assistance, even if the intended bond transaction was aborted. Improved financial management helped increase city revenues by almost 40% between 2008–12, and also enabled Dakar to mobilize over $50 million donor and commercial financing for infrastructure projects, including an ADF loan to fund improvements in street lighting completed in 2013. In addition, SNTA helped Dakar demonstrate its creditworthiness by obtaining a recognized credit rating, which may still be of value in future efforts to attract financing. Management capabilities are a critical component of rating agencies' credit analysis, of sub-sovereign entities.

Lesson 2: A politically informed approach must be integral to programme design

Political economy issues, in particular rivalry between central and municipal level governments and flawed models of fiscal decentralization, under which sub-national levels are assigned responsibility for infrastructure services without access to financial resources to deliver them, are major constraints on development. To be effective, a politically-informed approach to addressing these constraints needs to be iterative and flexible, not limited to a single output. The political sensitivity about raising the capital raising capacity of SNEs also suggests that TA support for the enabling environment for urban development would be better directed to the broader objective of enhancing the financial sustainability of SNE's, including expenditure management and revenue generation, rather than promoting specialized financial instruments with limited relevance to low-income countries.

Lesson 3: SNTA support was instrumental in 'crowding in' other donor support

Despite the limitations to SNTA's mandate, following its initial review, Dakar was able to mobilize a wide range of complementary donor support to support the broader objectives of establishing Dakar's creditworthiness and accessing financing for urban infrastructure. This demonstrates the important potential linkages between TA for upstream diagnostics and capacity building, and downstream work in facilitating transactions, and illustrates the advantages of offering a range of TA services to meet the evolving needs for downstream support.

The above case study is part of an evidence review for DFID to illustrate the opportunities and challenges of delivering economic growth in the urban and infrastructure space through technical assistance and advisory support to inform DFID's new Cities and Infrastructure for Growth programme (CIG).

[1] Africa Research Institute (ARI), *Dakar's municipal bond issue: A tale of two cities*, Briefing Note 1608, 2016 (provides a description of the political economy background to this case study)

By Katharina Neureiter and Michael Jordan